Homework due Thursday 10/22 –question 1 is worth 16 points, question 2 4 points---20 point homework. Other than graphs, which can be handwritten, answers must be typed

1. Get to know your local business and/or parents (if it’s a local business you can work in pairs)
   1. Interview a businessperson (or your parents), ask them how they set their prices. Discuss with them what they think the impact would be of a 10% price increase or a 10% price decrease on one or more of their products would be on their total revenue (just revenue—we are not deducting for the costs in the item)
   2. Discuss with the business owner how s/he thinks the following currently affect their sales (very strongly, strongly, average, not much, a lot) if possible explain the reasoning
      1. Changes in general income (area as a whole witnesses strong employment and increases in income).
      2. Wealth effect – stock market and other asset pricing- When assets are going up in value to people tend to buy lots more. As the stock market and/or housing values increase how does it affect their sales?
      3. Pressure from competitors- is their product largely “generic-like” product or is it more ‘unique”. If it’s unique, what makes it so?
      4. How have “substitute” goods affected the price? (note: all products/services have substitutes- some more so, some less so.
      5. Does the business person consider their product a luxury or necessity? Explain
      6. What products are complements to the product involved and how does the owner perceive the impact of price changes in the complementary good on his/her good?
      7. To what extent does the business price discriminate? Is it possible for the business to charge one price to one group of customers and a different price to another. What difficulties exist stopping them from getting more $$ from customers who may pay a higher price.
      8. How easy is it for the business owner to increase supply of the good/service if the market seems to be “hot” for this good.
2. Discuss the pros and cons of legalizing drugs such as heroin or cocaine from an economic perspective using the concepts of supply, demand, and elasticity. Create a hypothetical Demand schedule showing an elastic change in demand, as well as an inelastic for an illegal drug.